

Peoples Oil Limited



annual
report

NOTICE OF THE ANNUAL GENERAL MEETING

Shareholders are cordially invited to attend the Company's Annual General Meeting which will be held on Tuesday, April 4, 1995 at 10:00 AM in the Cardium Room at the Calgary Petroleum Club, 319 5th Avenue SW, Calgary, Alberta.



THE PRESIDENT'S REPORT TO THE SHAREHOLDERS

This is our 15th Annual Report to the Shareholders of Peoples Oil Limited, which reviews events of interest to the Company during the fiscal year ended October 31, 1994.

SOUTHERN ALBERTA AREA

Peoples continues to concentrate its main oil and gas activities in the Keho Lake area of Southern Alberta. As of October 31 we held oil and gas rights to approximately ten thousand (10,000) net acres. Again, most of our acreage is near two gas plants in which we have an interest.

The availability of drilling rigs and associated oil services continues to be a problem. Drilling costs currently run approximately 150 percent of what we consider normal, while the high cost of surface rights is also a problem as we find farmers more and more reluctant to lease rights for drilling purposes. The provincial government and the oil industry are attempting to resolve the surface lease problem and Peoples is working closely with industry in this regard.

Our current plans are to commence a drilling program either through a farmout or on our own, late in the second quarter, when we anticipate that the availability of rigs and services will improve. We also hope that natural gas prices will improve by then, as current prices render most of the drilling for natural gas to be uneconomic.

NEW PROPERTIES

Peoples made an offer of five million dollars (\$5,000,000) to a major oil company for gas producing leases west of Calgary in January 1994. Our offer was counter offered at seven million dollars (\$7,000,000) and after further extensive evaluations the counter offer was declined.

Peoples has several smaller properties which we are either currently evaluating or for which we have made offers. These are mostly in Central Southern Alberta.

CRUDE OIL AND NATURAL GAS PRICES

Crude oil prices appear to have stabilized at approximately \$17.00 U.S. per barrel; however gas prices have eroded at fiscal year's end to approximately \$1.35 per MCF. As of the writing of this letter, gas prices have dropped even further to \$1.05 per MCF which poses a very real problem for the industry. Many producers are suspending producing operations as being uneconomic. This significant decline in gas prices has resulted in a write down of our investment in properties.

DRILLING AND OTHER COMPANY ACTIVITIES

In May we deepened a well in the Keho area to the Mississippian. We own a 100 percent interest in the well and prior to deepening operations it had been producing gas and oil in small quantities from the Upper Cretaceous sands. At the time of drilling, the well was offsetting important unleased Crown leases which we had made arrangements with the government to have offered for sale. The well was drilled as a "right hole" and drilling was completed prior to the sale. A strong flow of light oil was encountered during an open hole test; however, logs which were run subsequent to the test indicated that the zone was too thin to be commercially productive and the well was plugged back and suspended.

Crestar Energy Inc. is an active operator in the area and prior to the sale we made arrangements with Crestar to bid for the offset Crown leases. Crestar's bid for these leases was successful and Peoples now owns an interest in these new lands. This was the only well drilled by Peoples during the past year.

A recently purchased shut-in gas well located east of the Keho Picture Butte plant was tied into the plant through a new 4 mile gathering system in June. The cost of this tie-in was \$350,000, all of which was paid for by a partner. Initially the well produced natural gas at commercial rates; however production declined rather rapidly and the well is currently making less than 100 MCF per day. The new pipeline system reaches a large area previously unserved with pipelines and we anticipate the new line will be used in a profitable way as additional drilling takes place east of the plant.

A third well which is south of the plant was tested and tied in at a cost of \$200,000, of which Peoples' share was \$100,000. Shortly after turning this well on, it began making oil, and it is currently shut-in pending further evaluation. We now believe that this well could be used in an enhanced oil recovery scheme which we are currently investigating.

A fourth well was tested two miles south of the plant, but failed to produce in commercial quantities. This well appears to have drilling mud damage problems and may be re-entered in the early spring.



CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Years ended October 31, 1994 and 1993

| | 1994 | 1993 |
|----------------------------------------------------|--------------|------------|
| Revenues: | | |
| Oil and gas | \$ 238,271 | \$ 137,280 |
| Processing | 12,677 | 26,062 |
| Interest | 82,525 | 67,018 |
| | 333,473 | 230,360 |
| Expenses: | | |
| Production costs | 156,936 | 112,237 |
| Depletion and depreciation | 567,810 | 237,247 |
| General and administrative | 376,451 | 215,134 |
| Loss on disposal of U.S. operations (note 6) | 25,738 | - |
| | 1,126,935 | 564,618 |
| Loss before income taxes | (793,462) | (334,258) |
| Income taxes (note 4): | | |
| Current | - | (58,319) |
| Deferred | - | (57,673) |
| | - | (115,992) |
| Net loss | (793,462) | (218,266) |
| Retained earnings, beginning of year | 492,397 | 710,663 |
| Retained earnings (deficit), end of year | \$ (301,065) | \$ 492,397 |
| Loss per share | \$ (.23) | \$ (.08) |

See accompanying notes to consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended October 31, 1994 and 1993

| | 1994 | 1993 |
|---------------------------------------------------------------|--------------|--------------|
| Cash provided by (used in): | | |
| Operations: | | |
| Net loss | \$ (793,462) | \$ (218,266) |
| Items not affecting working capital: | | |
| Depletion and depreciation | 567,810 | 237,247 |
| Deferred income taxes | - | (57,673) |
| Loss on disposal of U.S. operations (note 6) | 13,785 | - |
| Net changes in non-cash working capital balances | 157,665 | 4,120 |
| | (54,202) | (34,572) |
| Financing: | | |
| Common shares, net of issue costs | 19,900 | 1,582,534 |
| Investments: | | |
| Additions to petroleum and natural gas properties | (513,730) | (834,945) |
| Effect of currency translation adjustments on cash flows | 17,177 | 30,449 |
| Proceeds on disposal of petroleum and natural gas properties | 4,156 | - |
| | (492,397) | (804,496) |
| Increase (decrease) in cash and term deposits during the year | (526,669) | 743,466 |
| Cash and term deposits, beginning of year | 2,142,343 | 1,398,877 |
| Cash and term deposits, end of year | \$ 1,615,674 | \$ 2,142,343 |

See accompanying notes to consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended October 31, 1994 and 1993

1. SIGNIFICANT ACCOUNTING POLICIES:

(a) PETROLEUM AND NATURAL GAS PROPERTIES:

The Company follows the full-cost method of accounting for oil and gas operations in accordance with the Canadian Institute of Chartered Accountants Accounting Guideline "Full Cost Accounting in the Oil and Gas Industry". Capitalized costs are limited to undiscounted estimated future net revenues, using year end prices, from production of proven reserves, after applicable income taxes and general and administrative expenses.

Costs incurred are being depleted on the unit-of-production method based on estimated proven reserves. The Company has not capitalized any general and administrative expenses for the year.

(b) FUTURE SITE RESTORATION COSTS:

Future site restoration and reclamation costs are amortized using the unit-of-production method. These costs are estimated by the Company's engineers based on current regulations, costs, technology and industry standards. The annual charge is included in depletion and depreciation.

(c) FOREIGN CURRENCY TRANSLATION:

The accounts of the United States subsidiary, which while operating was accounted for as a self-sustaining operation, have been translated into Canadian dollars on the following basis:

- (i) Assets and liabilities at the rate of exchange at the balance sheet date; and
- (ii) Revenue and expenses at the average rate of exchange for the year.

All gains and losses arising from foreign currency translation of the United States subsidiary were included in the foreign currency translation account. In 1994 these gains were realized and recorded in income when the U.S. operations were wound up.

(d) JOINT VENTURE ACCOUNTING:

Substantially all of the Company's exploration activities are conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

(e) INVENTORY:

Inventory is recorded at the lower of cost (first-in, first-out) and replacement cost.

(f) NET EARNINGS (LOSS) PER SHARE:

Net earnings (loss) per share is calculated using the weighted average number of shares.

2. RELATED PARTY TRANSACTIONS:

The Company participates in joint ventures with Mon-Oil Inc., a wholly-owned subsidiary of Mon-Oil Limited, a shareholder. The terms of the joint ventures are considered comparable to similar transactions with non-related parties.

Monaco Inc., and Mon-Oil Ltd., companies owned by a director and officer, have provided management services to the Company during the year in the amount of \$166,672 (1993 - \$79,892).

3. PETROLEUM AND NATURAL GAS PROPERTIES:

| | 1994 | 1993 |
|---------------------------------------------|--------------|--------------|
| Oil and gas properties | \$ 1,161,287 | \$ 1,139,968 |
| Less accumulated depletion and depreciation | (586,224) | (469,958) |
| Net book value | \$ 575,063 | \$ 670,010 |

4. INCOME TAXES:

| | 1994 | 1993 |
|---------------------------------------------------------------|--------------|--------------|
| Provision (recovery) for income taxes based on combined basic | | |
| Canadian Federal and Provincial tax rate of 44.34% | \$ (351,820) | \$ (148,210) |
| Changes in income taxes resulting from: | | |
| Lower effective income tax rate due to earnings | | |
| of foreign subsidiary | - | 408 |
| Draw-down of deferred income taxes accumulated | | |
| at different rates | - | 14,675 |
| Non-deductible crown payments, net | 10,682 | 2,786 |
| Resource allowance | (7,500) | (4,054) |
| Share issue costs | - | (6,577) |
| Accounting loss not recognized | 348,478 | 24,016 |
| Other | 160 | 964 |
| | \$ - | \$ (115,992) |

CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Years Ended October 31, 1994 and 1993

5. SHARE CAPITAL:

| | Number of Shares | Amount |
|---------------------------------------------------------|---------------------|--------------|
| Share capital, October 31, 1992 | 2,105,003 | \$ 756,200 |
| Options exercised | 35,000 | 14,200 |
| Private placement, net of share issue costs of \$74,166 | 1,314,000 | 1,568,334 |
| Share capital, October 31, 1993 | 3,454,003 | \$ 2,338,734 |
| Private placement, net of share issue costs of \$100 | 16,000 | 19,900 |
| Share capital, October 31, 1994 | 3,470,003 | \$ 2,358,634 |

The Company has the following share purchase options outstanding to directors and employees.

| Expiry Date | Option Price | Number Granted | Number Cancelled | Number Outstanding October 31, 1994 |
|--------------|--------------|-------------------|---------------------|----------------------------------------------|
| May 2, 1996 | \$ 1.28 | - | 40,000 | 20,000 |
| June 9, 1995 | \$.44 | - | - | 50,000 |

| Expiry Date | Option Price | Number Granted | Number Exercised | Number Outstanding October 31, 1993 |
|--------------|--------------|-------------------|---------------------|----------------------------------------------|
| May 2, 1996 | \$ 1.28 | 60,000 | - | 60,000 |
| June 9, 1995 | \$.44 | - | 20,000 | 50,000 |

6. DISPOSITION OF U.S. OPERATIONS:

In 1994, the Company sold its U.S. inventory and petroleum and natural gas properties to a company controlled by the President. These asset disposals effectively wound up the operations of the U.S. subsidiary and the remaining cash was returned to the Company.

The disposition of the U.S. operating assets as of April 1994 was as follows:

| | Book Value | Proceeds | Loss |
|--------------------------------------|---------------|----------|-----------|
| Inventory | \$ 30,776 | \$18,823 | \$ 11,953 |
| Petroleum and natural gas properties | 60,126 | 4,156 | 55,970 |
| Realization of foreign currency gain | | | (42,185) |
| | | | 13,785 |
| | | | \$ 25,738 |



CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Years Ended October 31, 1994 and 1993

7. SEGMENTED INFORMATION:

The Company operates principally as an oil and gas exploration and development company.

| | 1994 | | |
|----------------------------------------------|--------------|---------------|--------------|
| | Canada | United States | Total |
| Revenues: | | | |
| Oil and gas | \$ 229,798 | \$ 8,473 | \$ 238,271 |
| Processing | 12,677 | - | 12,677 |
| Interest | 77,367 | 5,158 | 82,525 |
| | 319,842 | 13,631 | 333,473 |
| Expenses: | | | |
| Production costs | 153,271 | 3,665 | 156,936 |
| Depletion and depreciation | 567,810 | - | 567,810 |
| | 721,081 | 3,665 | 724,746 |
| Segmented income (loss) before the following | (401,239) | 9,966 | (391,273) |
| General and administrative | | | 376,451 |
| Loss on disposal of U.S. operations | | | 25,738 |
| Net loss | | | \$ (793,462) |
| Identifiable assets | \$ 2,232,800 | \$ - | \$ 2,232,800 |

| | 1993 | | |
|----------------------------------------------|--------------|---------------|--------------|
| | Canada | United States | Total |
| Revenues: | | | |
| Oil and gas | \$ 114,065 | \$ 23,215 | \$ 137,280 |
| Processing | 26,062 | - | 26,062 |
| Interest | 57,202 | 9,816 | 67,018 |
| | 197,329 | 33,031 | 230,360 |
| Expenses: | | | |
| Production costs | 99,764 | 12,473 | 112,237 |
| Depletion and depreciation | 41,435 | 195,812 | 237,247 |
| | 141,199 | 208,285 | 349,484 |
| Segmented income (loss) before the following | 56,130 | (175,254) | (119,124) |
| General and administrative | | | (215,134) |
| Income taxes | | | 115,992 |
| Net loss | | | \$ (218,266) |
| Identifiable assets | \$ 2,547,932 | \$ 419,954 | \$ 2,967,886 |

CORPORATE INFORMATION

OFFICERS AND DIRECTORS:

John B. Maughan, President & Director
Sherry L. Cremer, Vice-President Administration,
Corporate Secretary & Director
H. Norman Stewart, Treasurer & Director
Michael W. Maughan, Vice-President Exploration & Director
G. F. Stansberry, Director

HEAD OFFICE AND REGISTERED OFFICE:

1410 Elveden House, 717 - 7th Avenue S.W., Calgary, Alberta T2P 0Z3
Telephone: (403) 269-7717 • Fax: (403) 265-1637

AUDITORS:

KPMG Peat Marwick Thorne, 1200, 205 - 5th Avenue S.W., Calgary, Alberta T2P 4B9

BANK:

The Royal Bank of Canada, Main Branch, 339 - 8th Avenue S.W.
Calgary, Alberta T2P 1C4

SOLICITORS:

Milner Fenerty, 30th Floor Western Canadian Place, 700 - 9th Avenue S.W.
Calgary, Alberta T2P 1E7

Burstall Ward, 1800, 800 - 5th Avenue S.W., Calgary, Alberta T2P 3T6
DuMoulin Black, 10th Floor, 595 Howe Street, Vancouver, B.C. V6C 2T5

EXCHANGE LISTING:

Alberta Stock Exchange, Symbol PPS

REGISTRAR AND TRANSFER AGENT:

Montreal Trust, 411 - 8th Avenue S.W.
Calgary, Alberta T2P 1E7 Telephone: (403) 267-6800

AUTHORIZED CAPITALIZATION:

10,000,000

SHARES ISSUED:

3,470,003



PEOPLES OIL LIMITED

Incorporated 1979

John B. Maughan, P. Eng.
President

PRESIDENT'S MESSAGE TO THE SHAREHOLDERS

Peoples is pleased to present herein its first quarterly report for the three-month period from November 1, 1994 to January 31, 1995.

ACTIVITIES

The most recent objective of Peoples is to create greater opportunities for the development of oil reserves. To this end we have purchased ownership to approximately 2000 acres in the Keho area where light oil is encountered in several formations, including the Bow Island Sands, the Barons Sand and the Sunburst Sand and Elkton formations.

Our new lands were obtained by competitive bidding and we consider them to have important potential, for the development of oil reserves.

Farmout Opportunities

Peoples is currently entertaining several new drilling proposals from outside parties for its lands at Keho. One of the interested parties is a major independent.

CRUDE OIL AND NATURAL GAS PRICES

The industry is once again plagued with subnormal gas prices and we hope this condition will not last too long.

Gas prices appear to be depressed for several reasons, namely above average winter temperature conditions resulting in a diminished need for gas, limited major pipeline facilities, newly developed storage facilities and the drilling of an unusually large number of wells (approximately 12,000 new wells) during the 1994 drilling season creating additional volumes of new gas.

The uncertainty as to how long depressed prices will continue has caused us to change our plans for early drilling for gas. We now anticipate that our main drilling programs for gas will be delayed until the third and fourth quarters of 1995, barring an earlier than expected change in gas prices. Most of our drilling locations are near our producing facilities, so tie-ins should be fairly simple.

FINANCIAL

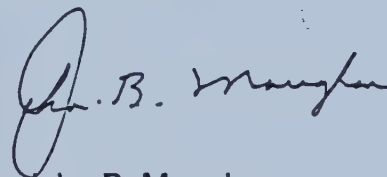
While our financial position remains relatively strong, we still have the need for cash flow. Drilling will help to alleviate our cash flow situation.

OTHER BUSINESS

Peoples has been considering corporate opportunities with other exploration groups and we now have several possibilities under review. Generally these corporate opportunities could be in the form of an amalgamation involving larger exploration groups or companies.

We shall of course immediately notify our shareholders if an important amalgamation opportunity develops.

Respectfully presented on behalf of the Board of Directors,

A handwritten signature in dark ink, appearing to read "John B. Maughan". The signature is fluid and cursive, with the first name "John" being more prominent.

John B. Maughan
February 22, 1995

PEOPLES OIL LIMITED

Consolidated Balance Sheet For Three Months Ended January 31, 1995 (with comparative figures for January 31, 1994)

(Unaudited)

| | <u>1995</u> | <u>1994</u> |
|--------------------------------------------------|----------------------------------|----------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and term deposits | \$1,417,482 | \$1,886,044 |
| Inventory | — | 29,326 |
| Due from affiliates | — | 1,121 |
| Accrued Interest and other receivables | 17,139 | 16,667 |
| Accounts receivable | 5,638 | 55,675 |
| Income tax receivable | — | 61,334 |
| | <u>1,440,259</u> | <u>2,050,167</u> |
| Petroleum and natural gas properties, at cost | 1,233,357 | 1,323,476 |
| Less accumulated depletion and depreciation | <u>633,724</u> <u>599,633</u> | <u>485,326</u> <u>838,150</u> |
| OTHER | 11,253 | 13,558 |
| | <u>\$ 2,051,145</u> | <u>\$ 2,901,875</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 52,798 | \$ 47,337 |
| Provision for site restoration | 23,021 | 5,529 |
| SHAREHOLDERS' EQUITY: | | |
| Share capital | | |
| Authorized: | | |
| 10,000,000 shares of no par value | | |
| Issued and fully paid: | | |
| 3,470,003 common shares | 2,358,634 | 2,358,634 |
| Foreign currency translation | — | 24,631 |
| Retained earnings | (383,308) | 465,744 |
| | <u>\$ 2,051,145</u> | <u>\$ 2,901,875</u> |

PEOPLES OIL LIMITED

Consolidated Statement of Income and Retained Earnings For Three Months Ended January 31, 1995 (with comparative figures for January 31, 1994)

(Unaudited)

| | | |
|--------------------------------------------|---------------------|-------------------|
| Revenue: | <u>1995</u> | <u>1994</u> |
| Oil and gas | \$ 34,924 | \$ 62,544 |
| Processing | 14,904 | 14,823 |
| Interest | 20,771 | 19,017 |
| | <u>70,599</u> | <u>96,384</u> |
| Expenses: | | |
| Joint venture operating costs | 24,789 | 46,353 |
| Depletion and depreciation | 47,500 | 16,435 |
| General and administrative | <u>80,553</u> | <u>59,823</u> |
| | <u>152,842</u> | <u>122,611</u> |
| (Loss) income - before income taxes | (82,243) | (26,227) |
| Income taxes - current | - | 426 |
| Net (loss) income | <u>(82,243)</u> | <u>(26,653)</u> |
| Retained Earnings - beginning of period | (301,065) | 492,397 |
| Retained Earnings - end of period | <u>\$ (383,308)</u> | <u>\$ 465,744</u> |

SHARE CAPITAL

Incentive Stock Options:

| Expiry Date | Option Price | Number Granted | Number Exercised/ Expired | Number Outstanding Jan. 31/95 |
|----------------|-----------------|-------------------|---------------------------------|-------------------------------------|
| May 2, 1996 | \$1.28 | -- | 5,000 | 15,000 |
| June 9, 1995 | \$0.44 | -- | -- | 50,000 |

PEOPLES OIL LIMITED

Consolidated Statement of Changes in Financial Position For Three Months Ended January 31, 1995 (with comparative figures for January 31, 1994)

(Unaudited)

| | <u>1995</u> | <u>1994</u> |
|---------------------------------------------------------------------|---------------------|---------------------|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Net income | \$ (82,243) | \$ (26,653) |
| Items not affecting working capital - depletion and depreciation | 47,500 | 16,435 |
| Net changes in non-cash working capital balances | (91,379) | (80,521) |
| Cash provided from operations | <u>(126,122)</u> | <u>(90,739)</u> |
| Financing: | | |
| Common shares - net of financing costs | <u>—</u> | <u>19,900</u> |
| Investing activities: | | |
| Additions to petroleum and natural gas properties | (72,070) | (183,508) |
| Effect of currency translation on cash flow | — | (1,952) |
| | <u>(72,070)</u> | <u>(185,460)</u> |
| Increase in cash and term deposits - for the period | (198,192) | (256,299) |
| Cash and term deposits - beginning of period | <u>1,615,674</u> | <u>2,142,343</u> |
| Cash and term deposits - end of period | \$ <u>1,417,482</u> | \$ <u>1,886,044</u> |

OFFICERS AND DIRECTORS

John B. Maughan, President & Director

Sherry L. Cremer, Vice President Administration,
Corporate Secretary & Director

H. Norman Stewart, Treasurer & Director

Michael W. Maughan, Vice President Exploration & Director

G. F. Stansberry, Director

HEAD OFFICE AND REGISTERED OFFICE

1410 Elveden House
717 - 7th Avenue SW
Calgary, Alberta
T2P 0Z3

Phone: (403) 269-7717
Fax: (403) 265-1637

AUDITORS

KPMG Peat Marwick Thorne
1200, 205 - 5th Avenue SW
Calgary, Alberta
T2P 4B9

SOLICITORS

Milner Fenerty
30th Floor Western Canadian Place
700 - 9th Avenue SW
Calgary, Alberta
T2P 1E7

Burstall Ward
1800, 800 - 5th Avenue SW
Calgary, Alberta
T2P 3T6

DuMoulin Black
10th Floor, 595 Howe Street
Vancouver, British Columbia
V6C 2T5

BANK

The Royal Bank of Canada
Main Branch
339 - 8th Avenue SW
Calgary, Alberta
T2P 1C4

EXCHANGE LISTING

Alberta Stock Exchange
Symbol PPS

REGISTRAR & TRANSFER AGENT

Montreal Trust
411 - 8th Avenue SW
Calgary, Alberta
T2P 1E7
Phone: (403) 267-6800

AUTHORIZED CAPITALIZATION

10,000,000

SHARES ISSUED

3,470,003